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Seventy-Fourth

ANNUAL REPORT

Year Ended December 31

1968

CENTRAL OF GEORGIA RAILWAY COMPANY

BOARDS
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Officers

CENTRAL OF GEORGIA RAILWAY COMPANY

W. GRAHAM CLAYTOR, JR.. *Chairman of the Board and Chief Executive Officer, Washington, D.C.*

R. E. FRANKLIN..... *President, Savannah, Ga.*

W. H. MOORE..... *Vice President-Operations, Washington, D.C.*

WILLIAM V. BURKE..... *Vice President-Sales, Washington, D.C.*

ROBERT S. HAMILTON..... *Vice President-Marketing, Washington, D.C.*

JOHN B. MILLER..... *Vice President-Law, Savannah, Ga.*

JAMES S. CROW..... *Vice President-Finance, Washington, D.C.*

W. R. DIVINE..... *Vice President and Comptroller, Washington, D.C.*

GEORGE S. PAUL..... *Vice President-Personnel, Washington, D.C.*

WILLIAM D. McLEAN..... *Vice President-Purchasing and Real Estate, Washington, D.C.*

ALLEN H. DOUGLAS..... *Vice President, Atlanta, Ga.*

J. J. MAHER..... *Secretary, New York, N.Y.*

ROBERT H. SMITH..... *Treasurer, Washington, D.C.*

Board of Directors

CENTRAL OF GEORGIA RAILWAY COMPANY

FRANK E. BONE	*Retired Vice President, Amsted Industries, Inc., Milledgeville, Ga.*
*W. GRAHAM CLAYTOR, JR.	*Chairman of the Board and Chief Executive Officer, Central of Georgia Railway Company; President, Southern Railway Company, Washington, D.C.*
ERLE COCKE, SR.	*Retired Vice President-Staff, Central of Georgia Railway Company, Atlanta, Ga.*
WILLIAM E. DILLARD	*Retired President, Central of Georgia Railway Company, Savannah, Ga.*
*R. E. FRANKLIN	*President, Central of Georgia Railway Company, Savannah, Ga.*
CHARLES C. HERTWIG	*Director Emeritus, Bibb Manufacturing Company, Macon, Ga.*
JULIAN T. HIGHTOWER	*Chairman of the Board, Thomaston Cotton Mills, Thomaston, Ga.*
THOMAS M. JOHNSON	*President, Johnson, Lane, Space, Smith & Co., Inc., Savannah, Ga.*
*JOHN J. McDONOUGH	*Associate, Finch Alexander Barnes Rothschild & Paschal, Atlanta, Ga.*
JOHN B. MILLER	*Vice President-Law, Central of Georgia Railway Company, Savannah, Ga.*
*W. H. MOORE	*Vice President-Operations, Southern Railway Company, Washington, D.C.*
WALTER C. SCOTT	*Vice President & Secretary, Savannah Sugar Refining Corp., Savannah, Ga.*
HUGH M. TARBUTTON	*Vice President, Treasurer and Traffic Manager, Sandersville Railroad Company, Sandersville, Ga.*
RICHARD TIFT	*Richard Tift Company, Albany, Ga.*
ROBERT TRAIN	*President, Bibb Manufacturing Company, Macon, Ga.*
MARTIN L. TRESSEL	*Retired Vice President, Alcoa International, Inc., Pittsburgh, Pa.*
*D. ABBOTT TURNER	*Chairman of the Board, Columbus Bank & Trust Company, Columbus, Ga.*
S. S. WILBANKS	*Vice President-Assistant to the President, Southern Railway Company, Washington, D.C.*

* Member of Executive Committee

JUN 10 1969 AB

To the Stockholders of
CENTRAL OF GEORGIA RAILWAY COMPANY:

It is with a great deal of pleasure I am able to report that the Company's operating revenues for 1968 set a new high of $51,109,000, an increase of $5,376,000 over 1967. There was, however, a substantial increase in operating expenses and had it not been for credits for federal income tax accruals the Company would have sustained a loss for the year. The tax accrual credits resulted in net income for the year of $2,155,000, compared with $15,000 in 1967.

During the year 1968, your Company established two mobile agency routes in Georgia on a trial basis. Under this concept, the agent travels in a radio-equipped station wagon, calling on the various shippers located on his route which covers territory previously served by several agents at fixed points. So far we have met with good reception to this plan and it will be extended to other areas.

In 1968, 78.2 track miles of welded rail were laid on the Central of Georgia and its subsidiaries, bringing the total welded rail to 447.5 track miles. Two major improvement projects have been started which have the potential of greatly increasing the traffic and profitability of Central. One project is a new Central of Georgia yard at Savannah, estimated to cost in excess of $3,000,000, which will increase the speed and efficiency of handling traffic at that location.

The other project costing over $7,000,000, in which Central will not bear any of the cost, will upgrade the line of the Georgia Northern Railway, a Southern Railway System company, between Albany, Georgia, and Sparks, Georgia. This line will be very important to both Central and Southern System because, when upgrading is completed, it will provide a much more direct and faster route between Florida points and Birmingham and the West.

To protect our investment in equipment, we continue to explore means to improve freight car utilization. New methods of car distribution made possible by electronic computer control, along with the assistance of high-speed reporting, are enabling Southern System's car distribution section to supply the right cars in sufficient numbers to meet shippers' needs with a minimum of delay.

During the year 1968 your management continued its efforts to discontinue passenger trains which were not rendering a public service commensurate with the burden upon the Company of the operating losses sustained by the trains. Central of Georgia joined with the Illinois Central and the Seaboard Coast Line in filing with the Interstate Commerce Commission under Section 13(a) of the Interstate Commerce Act a notice of the proposed discontinuance of the operations of the "Seminole" passenger train between Chicago and Jacksonville, being operated by the Central of Georgia between Birmingham, Alabama, and Albany, Georgia, at an estimated annual loss to Central in excess of $260,000. After a hearing the Interstate Commerce Commission approved the discontinuance of the "Seminole." However, certain protestants obtained a federal court order in Chicago requiring the continuance of the "Seminole" pending a review of the Commission's order by the courts. The matter is now pending in Federal Court in Chicago for a hearing on the merits, with the railroads being required to continue the "Seminole" in the meanwhile. Also in 1968, Central of Georgia filed an application with the Georgia Public Service Commission for authority to discontinue the operations of the "Nancy Hanks," an intrastate passenger train operating daily between Savannah and Atlanta, Georgia, at an estimated annual loss in excess of $250,000. After hearings, the Georgia Public Service Commission denied the application, finding that there was sufficient public demand for the transportation service to warrant its continued operation despite the losses being sustained by the Company. Concurrently, the Georgia Commission authorized a substantial increase in intrastate passenger fares.

Following the opinion and order of the Interstate Commerce Commission dated November 15, 1967, in its Finance Docket 21400, relating to acquisition of control of Central by Southern Railway Company, deciding that Sections 4, 5, and 9 of the Washington Job Protection Agreement applied to the acquisition, negotiations were held with the labor organizations to implement this ruling, and agreements in principle have been reached. Substantial progress can be anticipated in 1969 in disposing of individual claims under the prin-

ciples established in these agreements. Because of the great diversity of individual situations involved, it is not possible at this time to make a reasonable estimate of the future liability which is involved.

There is still pending in the United States District Court for the District of Columbia the complaint of two minority stockholders filed in 1965 seeking to compel the declaration and payment of dividends on preferred stock of the Central for the years 1960 to date and for future years. Motion by the plaintiffs for summary judgment has been filed and will be argued soon. Counsel for the Company continues of the opinion that the actions of the Directors with respect to dividends have been consistent with both the law and business realities, and that proper priority has been followed in the application of funds to the necessary expenditures for the upgrading of the physical properties and equipment of the Company. No dividends were paid on Central's preferred stock in 1968.

In addition to the comparative statement of income and balance sheet which have been audited by independent public accountants, and which are a part of this report, I am pleased to enclose a copy of the Southern Railway Company Annual Report for 1968.

The consolidated financial statements include the Southern Railway Company and subsidiary companies in which Southern owns, directly and indirectly, more than 50 per cent of the voting stock. Southern and a subsidiary own 98.8 per cent of the preferred stock and 99.3 per cent of the common stock of Central of Georgia.

Sincerely,

W. Graham Clayton, Jr.

Chairman of the Board

CENTRAL OF GEORGIA RAILWAY COMPANY

STATEMENT OF INCOME AND INCOME RETAINED IN THE BUSINESS

YEARS 1968 AND 1967

	1968	1967
Railway operating revenues:		
Freight	$48,855,000	$42,691,000
Passenger	874,000	979,000
Mail	224,000	700,000
All other	1,156,000	1,362,000
	51,109,000	45,732,000
Railway operating expenses:		
Maintenance of way and structures	9,989,000	9,650,000
Maintenance of equipment	9,735,000	9,904,000
Traffic	1,266,000	1,536,000
Transportation	18,840,000	19,194,000
Other	3,096,000	3,726,000
	42,926,000	44,010,000
Federal income taxes—note 2	(2,201,000)	(2,043,000)
Taxes other than federal income	3,077,000	2,908,000
Equipment rent expense	2,224,000	1,681,000
Joint facility rent expense	914,000	830,000
	46,940,000	47,386,000
Net railway operating income (loss)	4,169,000	(1,654,000)
Dividends from subsidiary companies net of non-recurring dividend shown below—note 1	—	1,560,000
Interest and miscellaneous income	333,000	371,000
	4,502,000	277,000
Miscellaneous deductions from income	301,000	78,000
Interest and other fixed charges	1,500,000	1,632,000
Interest on income bonds—note 7	546,000	551,000
Income (loss) before extraordinary item	2,155,000	(1,984,000)
Non-recurring dividend from subsidiary company—note 1	—	1,999,000
NET INCOME FOR THE YEAR—note 4	$ 2,155,000	$ 15,000
Income retained in the business:		
Beginning of year	17,584,000	17,569,000
End of year	$19,739,000	$17,584,000

CENTRAL OF GEORGIA RAILWAY COMPANY

BALANCE SHEET

DECEMBER 31, 1968 AND 1967

ASSETS	1968	1967
Current assets:		
Cash and short term investments	$ 1,005,000	$ 1,015,000
Accounts receivable	3,041,000	2,954,000
Materials, supplies and other—note 1	68,000	413,000
	4,114,000	4,382,000
Investments in (at cost) and advances to affiliates—note 1	14,361,000	14,364,000
Other assets	1,250,000	1,617,000
Properties—note 3	104,901,000	107,518,000
Total assets	$124,626,000	$127,881,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 5,930,000	$ 5,348,000
Federal income taxes—note 2	686,000	—
Current maturities of long-term debt—note 7	2,912,000	3,325,000
	9,528,000	8,673,000
Long-term debt due after one year—note 7	38,601,000	41,605,000
Net amount payable to parent company—note 1	1,476,000	5,315,000
Amounts payable to subsidiaries	2,485,000	2,485,000
Reserves and other liabilities	2,025,000	1,447,000
	54,115,000	59,525,000
Shareholders' equity—note 4:		
Preferred stock	17,039,000	17,039,000
Common stock	33,724,000	33,724,000
Capital surplus	9,000	9,000
Income retained in the business	19,739,000	17,584,000
	70,511,000	68,356,000
Total liabilities and shareholders' equity	$124,626,000	$127,881,000

CENTRAL OF GEORGIA RAILWAY COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 1968

Note 1—Corporate Relationships

Central of Georgia Railway Company (Company), a subsidiary of Southern Railway Company (Southern), is over 99% owned by Southern. Its operations are integrated with those of Southern and other affiliated companies. Common costs from integrated operations are allocated among the companies including Central in relation to the companies' participation in the operations which give rise to the costs.

Investments in subsidiaries are reported at cost. The Company's equity in subsidiaries exceeds the cost of such investment by $9,800,000 at December 31, 1968. Its equity in the earnings of these companies amounted to $600,000 and $1,000,000 for 1968 and 1967, respectively.

As of December 31, 1968, amounts receivable from and payable to Southern have been classified as Net Amount Payable to Parent Company. Prior year's figures have been restated for comparability.

Note 2—Federal Income Taxes

The Company is included in the consolidated federal income tax return of Southern, to which return it contributed a tax loss for both 1968 and 1967. The income statement reflects the payments to be received from the consolidated group for use of the Company's tax loss and investment credit in the consolidated federal income tax return. For the year, this latter category increased the tax payment to be received by some $1,500,000.

The Company keeps its books in accordance with the rules and regulations of the Interstate Commerce Commission (ICC), which do not provide for the recognition of possible deferred income tax resulting from use of accelerated depreciation methods or rates for tax purposes. The excess of tax depreciation over book depreciation has the effect of increasing the payment for use of the Company's tax loss by $900,000 for 1968 and $500,000 for 1967. The cumulative tax benefits to December 31, 1968, aggregate approximately $13,000,000.

At December 31, 1968, the Company had available some $1,500,000 of unused investment credits.

At year end, the Internal Revenue Service had proposed assessments against the Central of Georgia Railway Company incident to its separate federal income tax returns for the years 1950 through 1961 of $1,800,000. The Company is protesting these proposed assessments and has asserted substantial offsets. During 1968, the Company made provision for certain of the deficiencies proposed. Based on information developed subsequent to the balance sheet date, an additional provision of about $550,000 will be made in 1969; with this added provision, it is the opinion of management that the tax reserve will be adequate to cover such deficiencies as may ultimately be determined for the open years.

Note 3—Properties

Properties comprise the following:

	1968	1967
Road	$ 71,541,000	$ 71,031,000
Equipment	77,220,000	79,011,000
Other property	1,957,000	1,805,000
	150,718,000	151,847,000
Accumulated depreciation	45,817,000	44,329,000
Net properties	$104,901,000	$107,518,000

In accordance with ICC accounting regulations, rails, ties, and certain other road properties are not depreciated but are accounted for under an acceptable alternate practice of "replacement" accounting. Under this method replacements in kind are charged to expense and betterments are capitalized but are not depreciated. At December 31, 1968, non-depreciable road property, including land, aggregated approximately $51,200,000. All other property has been depreciated for book purposes, primarily on a straight line basis over lives approved by the ICC. Depreciation expense amounted to $3,600,000 for 1968 and $3,500,000 for 1967.

Note 4—Stock and Dividends

At December 31, 1968, there were 230,000 shares of $100 par value 5% preferred stock authorized of which 170,394 shares were outstanding. In addition, there were 500,000 shares of no par common stock authorized of which 337,242 shares were outstanding.

Preferred stock dividends are cumulative for a period of three years. The Company's retained earnings are restricted as to payment of dividends on common stock until preferred dividends of $2,556,000, representing three years' arrearage, have been declared and paid.

Note 5—Dismissal and Displacement Payments

The Order of the ICC allowing acquisition of controlling interest in the Company by Southern provides for protection to employees dismissed or displaced as a direct result of this acquisition. This protection is in the form of payments equivalent to the affected individual's average wages for a period prior to this transaction. Any amounts earned by the affected employee enter into the computation of amounts payable by the Company. The Company has made final lump-sum settlements with some of the employees covered by the protection provisions of the Order. During 1968, $300,000 was charged to expense as a result of these employee protection provisions compared with $1,000,000 during 1967.

In late 1967, the ICC rendered a further Opinion and Order pertaining to employee protection provisions following which the Company negotiated with the labor organizations agreements in principle as to the application of the Order. While progress is being made in disposing of individual claims under these arrangements, it is not possible at this time to make a reasonable estimate of the future liability of the Company for dismissal or displacement payments.

Note 6—Contingent Liabilities

At the end of 1968, the Company was contingently liable, separately and jointly with others, on indebtedness of affiliated companies in the approximate amount of $400,000.

The Company, together with other major railroads, has agreed to advance funds to meet principal and interest payments on certain equipment obligations of Trailer Train Company, but only in the unlikely event that charges for the use of this equipment are insufficient to meet these payments. The Company is a participant, together with other railroads, in a service interruption policy requiring payment of limited additional premiums if claims are filed by other participants.

There is pending in the United States District Court for the District of Columbia a complaint of two minority stockholders filed in 1965 seeking to compel the declaration and payment of dividends on preferred stock of the Central for 1960 and subsequent years. In the opinion of counsel for the Company, the suit is without merit.

Note 7—Long-Term Debt

	Interest Rates	Due within One Year	Due after One Year
Bonds:			
First Mortgage, Series "A"	4%	$ 59,000	$10,295,000
General Mortgage (income), Series "B"	4½%	71,000	12,022,000
Equipment Obligations	2⅞ to 6¼%	2,782,000	16,284,000
Total		$2,912,000	$38,601,000

Interest on the income bonds is payable only if earned. Substantially all of the Company's assets are pledged as collateral for the above debt.

PRICE WATERHOUSE & CO.

1707 L STREET, N.W.

WASHINGTON, D. C. 20036

February 18, 1969

To the Board of Directors and
Shareholders
Central of Georgia Railway Company

We have examined the balance sheet of CENTRAL OF GEORGIA RAILWAY COMPANY (a subsidiary of Southern Railway Company) as of December 31, 1968 and the related statement of income and income retained in the business for the year. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company maintains its accounts in conformity with the uniform system of accounts for railroad companies prescribed by the Interstate Commerce Commission and the accompanying financial statements have been prepared in accordance therewith. The uniform system of accounts does not provide for accounting recognition of the possible effect on income taxes in future years of current benefits, explained in Note 2 to the financial statements, resulting from the deductions (net) for amortization and depreciation of property for income tax purposes in excess of the deductions recorded in the accounts. The accounts of subsidiary companies, referred to in Note 1, have not been consolidated with those of the Company in the accompanying financial statements. Both of these matters vary from generally accepted accounting principles.

In our opinion, subject to the resolution of the uncertainties associated with the settlement of the matter explained in Note 5, and except for (1) the matters outlined in the preceding paragraph and (2) the inadequacy of the provision for deficiencies in Federal income taxes explained in Note 2, the accompanying financial statements present fairly the financial position of Central of Georgia Railway Company at December 31, 1968 and the results of its operations for the year, in conformity with generally accepted accounting principles consistently applied.

The unconsolidated financial statements of Central of Georgia Railway Company for the year 1967 were examined by other independent accountants.

Price Waterhouse & Co.

PRINCIPAL OFFICE.....227 West Broad Street, Savannah, Ga. 31401

WASHINGTON OFFICE..920 Fifteenth Street, N.W., Washington, D. C. 20005

NEW YORK OFFICE.....70 Pine Street, New York, N. Y. 10005

STOCK TRANSFER AGENT.....Bankers Trust Company
16 Wall Street, New York, N. Y. 10015

REGISTRAR OF STOCK....Morgan Guaranty Trust Company of New York
30 West Broadway, New York, N. Y. 10015